

Message Text

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14

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01

AGR-05 AGRE-00 /105 W

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R 160955Z SEP 76

FM AMEMBASSY TOKYO

TO SECSTATE WASDC 2290

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

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E.O. 11652: N/A

TAGS: EGEN, JA

SUBJECT: ECONOMIC ISSUES AT EXTRAORDINARY DIET SESSION

REF: TOKYO 13265

1. BEGIN SUMMARY. EXTRAORDINARY SESSION OF DIET CONVENES SEPT. 16 TO CONSIDER ENABLING LEGISLATION TO PERMIT NEW GOJ BORROWING OF ABOUT \$13 BILLION AND OTHER BILLS. CABINET DIFFICULTIES HAVE HAD MINIMAL ECONOMIC AFFECTS AND WE CONTINUE TO EXPECT GNP REAL GROWTH THIS YEAR AT 6.5-7.0 PERCENT. EXPORT GROWTH SEEMS TO BE SLOWING, WHILE CONSUMPTION AND INVESTMENT ARE STRONGER. END SUMMARY.

2. EXTRAORDINARY SESSION OF DIET WILL CONVENE SEPTEMBER 16 TO CONSIDER SEVERAL MEASURES OF ECONOMIC SIGNIFICANCE.

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MAJOR ITEM, AND THE ONE INDISPENSIBLE BILL, IS THE SPECIAL

FINANCING BILL TO ENABLE GOJ TO COVER ITS BUDGET DEFICIT BY BORROWING UP TO DOLS 13 BILLION. OTHER BILLS TO INCREASE RAIL FARES AND TELEPHONE CHARGES WILL BE CONSIDERED BUT THERE IS REAL DOUBT THEY WILL BE PASSED IN THE PRE-ELECTION PERIOD. IT IS LIKELY THAT BILLS WILL ALSO BE INTRODUCED TO PROVIDE TYPHOON DAMAGE RELIEF, EMERGENCY CROP LOSS COMPENSATION TO FARMERS AND HIGHER PAY FOR RAILROAD WORKERS.

3. JAPAN'S "NON-STOP" CABINET CRISIS, WHICH HAS DELAYED THE DIET SPECIAL SESSION UNTIL THE LAST MOMENT, HAS HAD LITTLE OR NO NOTICEABLE IMPACT ON THE ECONOMY. ECONOMIC RECOVERY IS CONTINUING AND OVERALL PERFORMANCE IS GOOD, EVEN THOUGH SOME INDUSTRIES SUCH AS SHIPBUILDING AND SOME INDICATORS SUCH AS THE UNEMPLOYMENT RATE ARE LAGGING BADLY. ECONOMIC GROWTH IN THE SECOND QUARTER WAS 4.5 PERCENT AT AN ANNUAL RATE--WELL BELOW THE UNUSUALLY HIGH FIRST QUARTER FIGURE OF 13.4 PERCENT. WE CONTINUE TO EXPECT GROWTH FOR THE YEAR TO BE 6.5-7.0 PERCENT IN REAL TERMS, A RATE WHICH DOES NOT SEEM TO RISK INCREASING INFLATION.

4. RISING EXPORTS, WHICH UNTIL RECENTLY PROVIDED MUCH OF THE STIMULUS FOR RECOVERY, HAVE NOW BEEN JOINED BY STRONGER CONSUMER AND INVESTMENT DEMAND. EXPORTS IN AUGUST DECLINED 1.4 PERCENT FROM JULY ON SEASONALLY ADJUSTED BASIS, BUT ARE UP 23 PERCENT FROM THE RELATIVELY LOW FIGURE FOR AUGUST 1975. PRELIMINARY FIGURES INDICATE THAT AUGUST IMPORTS ARE UP ON A CUSTOMS CLEARANCE BASIS 3.6 PERCENT OVER JULY AND BY 22 PERCENT OVER A YEAR AGO. THUS, WHILE THE SIGNS ARE SOMEWHAT MIXED, JAPAN'S EXPORT BOOM DOES SEEM TO BE GIVING WAY TO A MORE BROADLY BASED EXPANSION.

5. WE HAVE HEARD SOME REPORTS THAT THE CABINET CRISIS AND DELAYS IN FUNDING LEGISLATION ARE HURTING THE ECONOMY, BUT SEE NO STRONG EVIDENCE THAT THAT IS SO. INDUSTRIAL PRODUCTION AND SHIPMENTS ROSE IN JULY. NEW BUSINESS INVESTMENT PLANS SHOW MODERATE INCREASES. JAPAN'S ECONOMIC BUREAUCRACY SEEMS TO FUNCTION JUST ABOUT AS WELL LIMITED OFFICIAL USE

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WHETHER DEPUTY PRIME MINISTER FUKUDA AND OTHER CABINET MEMBERS ARE DISTRACTED BY FACTIONAL STRIFE OR NOT. THERE HAS BEEN SOME CONCERN THAT LEGISLATIVE DELAYS MAY FORCE A RUSH OF GOVERNMENT BORROWING AT THE END OF JFY 1976, CAUSING FINANCIAL MARKET DISRUPTION AND HURTING BUSINESS BORROWING. IN ADDITION IT COULD HINDER FINANCING THE GOJ DEFICIT IN A NON-INFLATIONARY WAY. NEVERTHELESS, JAPAN'S ECONOMY SEEMS SOLIDLY ON THE RAILS

TOWARD STEADY EXPANSION.
HODGSON

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